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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002588

SIPDIS

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TAGS: [ENRG](#) [EMIN](#) [EIND](#) [EINV](#) [IZ](#)
SUBJECT: A NEW GOI BIG PLAYER IN OIL?

Classified By: Economic Minister Counselor Charles Ries. Reasons 1.4 (b, d).

SUMMARY

1. (C) The Ministry of Industry and Minerals is reportedly seeking to expand into both upstream and downstream oil and gas projects, including technical service joint ventures with the oil majors. In addition, MIM wants to increase its role in mineral exploitation and transportation infrastructure, as well as form a billion dollar development bank for small to medium-sized enterprises. End Summary.

MIM SEEKING TO EXPAND ROLE IN OIL

2. (C) According to Sami Araj, the Deputy Minister of Industry and Minerals (MIM), his ministry is seeking to expand into both upstream and downstream oil and gas projects. "We are looking to be active in oil, from exploration to the gas pump," he stated. He and Industry Minister Fawzi Hariri met with BP and Shell executives in the United Kingdom in July and Exxon Mobile and Chevron executives in the United States earlier this year to discuss forming joint ventures (JV) in oil services companies as a first step. Araj said MIM specifically is seeking "firm offers" from the oil majors on JVs for large refinery construction projects in order to gain the support of Minister of Oil Shahrastani, who has so far shown some "reluctance" towards MIM's efforts of expanding its role. Araj said the GOI recently established a committee, chaired by Shahrastani, to focus on the private sector's role in refinery construction. Industry Minister Hariri will propose refinery construction projects through that forum, Araj said. (Note: MIM is currently completing construction on four small-scale refineries, two in Erbil and two in Sulaimaniya, to process 10,000 bpd. JVs with the majors on construction would envisage 50,000 bpd refineries. End Note.)

PUTTING THE "MINERALS" BACK INTO MIM

3. (C) According to Araj, MIM plans to increase its role in mineral exploitation. While MIM administers the State Company for Geological Survey and Mining, it lacks capacity for mineral extraction, he said. His meetings in the UK therefore also focused on joint ventures with minerals-related companies, including steel giant ArcelorMittal, which not only is bidding on a joint venture, production-sharing agreement on MIM steel companies, but also in talks with MIM on iron ore exploration rights. Araj said companies are also interested in copper and gold. In addition, in July MIM reportedly signed an MOU with the University of Leeds for a joint project on improving mineral exploration and the granting of rights. He added that once IOCs begin major oil production-sharing investment projects,

they would have to go through MIM to purchase all sub-terrestrial maps.

TARGETTING INFRASTRUCTURE, PRIVATE SECTOR DEVELOPMENT

¶4. (C) Declaring that MIM should be called the "Ministry for Building Iraq," Araji said he envisioned MIM taking a greater role in transportation and infrastructure projects, such as ports, highways, and airports, as well as telecommunications.

He said MIM presented a proposal to the Council of Ministers to establish a development bank for small to medium-sized enterprises. The Bank would initially be capitalized as a 1.5 billion USD revolving fund. Araji said MIM is responsible for registering all industrial projects in Iraq, and that 37,000 industrial-related projects are registered through his ministry. He explained MIM is seeking to gain stewardship of all patents, trademark rights, and IPR concerns in Iraq from the Ministry of Planning and Development.

MIM UPBEAT ON BIDS FOR JVS WITH SOES

¶5. (C) Araji was enthusiastic about the bids for joint venture, production-sharing deals for the 36 state-owned factories MIM tendered from May to July (septel). (Note: MIM reportedly received 56 bids, mainly for its cement, steel, sulfur and fertilizer factories. End Note). Araji reiterated MIM's strategy of eventually selling equity shares in these and other state-owned enterprises, to begin "hopefully" within five years.

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COMMENT

¶6. (C) This is not the first time we have heard of MIM expanding into oil/gas projects or international oil companies partnering with the GOI on oil service companies. In April, Araji said MIM wanted to set up new engineering company to specialize in oil and gas infrastructure projects.

In May, a consultant to MIM told us he had learned a "British oil company" was exploring a possible 49 percent equity joint venture in an oil services company with the Ministry of Oil.

¶7. (C) Araji has in the past stated MIM neither desired to create an "oligarch class through shock treatment privatization" nor exceed a "stewardship" role of industry and commerce. At the same time, given MIM's large payroll (200,000) and central role it played in the Iraqi economy for decades, Araji is extremely vocal in heralding the ministry's capabilities to rebuild Iraq. Expanding into other sectors, but only through strategic partnerships with private enterprise, and stimulating SME growth, but with capital administered by MIM, reflects this philosophy of marrying the public and private sectors. While this could signal how Iraq may further embark on economic development, it is unlikely that other GOI actors - mainly the Ministries of Oil, Electricity, Housing and Construction, Transportation, Communication, and the state banks - will welcome MIM onto their turfs. End Comment.

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